

**RUDYARD AREA SCHOOLS**

**RUDYARD, MICHIGAN**

**JUNE 30, 2006**

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-xi
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets	4
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Statement of Changes in Fiduciary Net Assets	8
Notes to Financial Statements	9 - 26
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule	27 - 35
Nonmajor Governmental Fund Types	
Combining Balance Sheet	36 - 37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	38 - 39
<b>Fiduciary Fund Types</b>	
Agency Fund	
Statement of Cash Receipts and Disbursements	40 - 41
<b>Other Information</b>	
Schedule of 2005 Tax Roll	42
Statement of Investments	43
Schedule of Bonds Payable	
1989 Bond Issue	44
1998 Durant Bond Issue	45
1999 Bond Issue	46-47

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

*Baird, Cotter and Bishop, P.C.*

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE,  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

**CERTIFIED PUBLIC ACCOUNTANTS**

August 3, 2006

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Rudyard Area Schools  
Rudyard, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Rudyard Area Schools, Rudyard, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Rudyard Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Rudyard Area Schools, Rudyard, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006, on our consideration of Rudyard Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xi and 26-34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rudyard Area Schools, Rudyard, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C*

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Rudyard Area Schools, a pre-K-12 School District located in Mackinaw and Chippewa Counties, Michigan, has implemented the provisions of Government Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Rudyard Area Schools Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Projects, and the School Service Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District-Wide Financial Statements:**

The District-wide financial statements are maintained using the "full accrual" basis. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

**Summary of Net Assets:**

The following summarizes the net assets at fiscal years ended June 30:

<b>Assets</b>	<u>2006</u>	<u>2005</u>
Current Assets	<u>\$ 4,011,270</u>	<u>\$ 4,391,727</u>
Capital Assets	16,850,055	16,741,428
Less Accumulated Depreciation	<u>(9,743,222)</u>	<u>(9,192,866)</u>
Capital Assets, Net Book Value	<u>7,106,833</u>	<u>7,548,562</u>
Total Assets	<u><u>\$ 11,118,103</u></u>	<u><u>\$11,940,289</u></u>
<b>Liabilities</b>		
Current Liabilities	\$ 2,584,891	\$ 2,686,161
Non Current Liabilities	<u>5,512,804</u>	<u>5,704,214</u>
Total Liabilities	<u>8,097,695</u>	<u>8,390,375</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,582,583	1,844,447
Restricted for Debt Service	644,101	708,529
Unrestricted	<u>793,724</u>	<u>996,938</u>
Total Net Assets	<u><u>\$ 3,020,408</u></u>	<u><u>\$ 3,549,914</u></u>

**Analysis of Financial Position:**

During fiscal year ended June 30, 2006, the District's net assets decreased by \$529,506. A few of the significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

For fiscal year ended June 30, 2006, the net increase in accumulated depreciation was \$550,356.

Depreciation expense is calculated on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

**2. Capital Outlay Acquisitions**

Actual capital acquisitions for fiscal year ended June 30, 2006 were \$108,627.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation.

**3. Debt, Principal Payments**

The District made principal payments on bonded, long-term debt obligations and notes payable that reduced the amount of the District's long-term liabilities as follows:

	Balance 6/30/2005	New Borrowings	Principal Payments	Balance 6/30/2006
Bonds Payable	\$ 5,682,366	\$ 0	\$ 175,000	\$ 5,507,366
Notes Payable	21,749	0	4,865	16,884
	<u>\$ 5,704,115</u>	<u>\$ 0</u>	<u>\$ 179,865</u>	<u>\$ 5,524,250</u>

Additionally, long-term accrued expenses for early retirement and sick pay were increased by \$23,273 during the year.

**Results of Operations:**

For the fiscal years ended June 30, the District-wide results of operations were:

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
<b>General Revenues</b>				
Property Taxes Levied for General Operations	\$ 746,749	7.17%	\$ 724,323	6.54%
State of Michigan Aid - All Sources	6,455,333	61.95%	6,560,405	59.21%
Property Taxes Levied for Debt Services	344,717	3.31%	533,209	4.81%
Other - Federal, State and Local	705,082	6.77%	280,124	2.53%
Other - Investment Earnings, Fees	78,957	0.75%	46,248	0.42%
Total General Revenue	8,330,838	79.95%	8,144,309	73.51%
<b>Program Revenues</b>				
Charges for Services - Local	213,697	2.05%	223,792	2.02%
Operating Grants - Federal and State	1,875,661	18.00%	2,711,505	24.47%
Total Program Revenues	2,089,358	20.05%	2,935,297	26.49%
Total Revenues	<u>\$ 10,420,196</u>	<u>100.00%</u>	<u>\$ 11,079,606</u>	<u>100.00%</u>
<b>Expenses</b>				
Instruction and Instructional Support	\$ 6,034,764	55.11%	\$ 6,107,949	53.90%
Supporting Services	3,220,612	29.41%	3,385,497	29.87%
Public Library	71,143	0.65%	102,641	0.91%
Food Services	400,385	3.66%	402,933	3.55%
Athletic Activities	193,716	1.77%	172,923	1.53%
Community Services	0	0.00%	2,527	0.03%
Interest and Fiscal Charges	260,717	2.38%	263,692	2.33%
Depreciation (Unallocated)	550,356	5.03%	590,044	5.20%
Other Transactions	218,009	1.99%	304,427	2.68%
Total Expenses	10,949,702	100.00%	11,332,633	100.00%
Decrease in Net Assets	<u>\$ (529,506)</u>		<u>\$ (253,027)</u>	



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

**1. Property Taxes levied for General Operations (General Fund Property Taxes)**

The District levies 16.8009 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property tax levy for the 2005–2006 fiscal year was \$746,749. The amount of unpaid personal property taxes at fiscal year end June 30, 2006 was \$44,873.

The following summarizes the District's non-homestead levy the past three years:

<u>Fiscal Year</u>	<u>Non- Homestead Tax Levy</u>	<u>% Increase (Decrease) from Prior Year</u>
2005 - 2006	\$ 746,749	5.52
2004 - 2005	707,649	2.21
2003 - 2004	692,395	7.09
2002 - 2003	646,522	5.00

**2. State of Michigan Aid, Unrestricted**

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. Student Enrollment – Blended fall count and prior year winter count over the past three years using a weighted average
- c. The District's non-homestead levy

**Per Student, Foundation Allowance:**

Annually, the State of Michigan sets the per student foundation allowance. The Rudyard Area Schools foundation allowance was \$6,875 per student for the 2005–2006 school year. This was a \$175 increase over the district's 2004–2005 foundation allowance per student of \$6,700.

**Student Enrollment:**

The District's student enrollment for the fall count of 2005-2006 was 976.43 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments in the past five years:

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

	Student FTE	FTE Change From Prior Year
2005-2006	976.43	(26.41)
2004-2005	1,002.84	(91.18)
2003-2004	1,067.64	(28.05)
2002-2003	1,090.00	(2.55)
2001-2002	1,124.62	(30.47)

**3. Property Taxes levied for Debt Service:**

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006, the District's debt millage levy was 3.70 mills which generated a levy of \$344,729. As of June 30, 2006, \$15,317 of debt service personal property taxes were not paid to the District.

**4. Food Service Operations:**

The District's food and milk sales to students and adults decreased by approximately \$10,219 to \$124,262 from the prior school year, due to a decline in student enrollment.

Total revenues from food service operations exceeded total expenditures for the year by \$5,214.

We also have instituted direct certification this year to help bring in additional revenue. Direct certification is a process where any student receiving food stamp assistance is automatically marked free in our food service system and the parents do not have to complete a free or reduced application unless their situation changes. A letter is sent home to the parents stating that their student has been direct certified for free breakfast and lunch.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

**General Fund Expenditures Budget Vs. Actual 5-Year History**

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2001-2002	\$ 8,082,631	\$9,687,253	\$9,596,831	(15.78) %	0.93 %
2002-2003	8,150,761	9,326,725	9,153,259	(12.30) %	1.86 %
2003-2004	9,514,314	9,695,710	9,897,089	(4.02) %	(2.08) %
2004-2005	9,121,444	10,123,704	10,749,679	(17.85) %	(6.19) %
2005-2006	9,296,681	9,687,625	9,514,389	(2.34) %	1.79 %
Five Year Average (Over) Under Budget				(10.74) %	(0.80) %

**General Fund Revenue Budget Vs. Actual 5-Year History**

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2001-2002	7,642,559	9,578,563	9,520,698	24.46 %	(0.60) %
2002-2003	7,944,517	9,870,116	9,714,443	22.28 %	(1.57) %
2003-2004	9,393,444	9,726,009	9,754,996	3.85 %	0.29 %
2004-2005	9,443,138	9,870,995	10,029,455	6.21 %	1.61 %
2005-2006	9,277,956	9,759,346	9,532,733	2.67 %	(2.32) %
Five Year Average Over (Under) Budget				11.89 %	(0.51) %

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

As a matter of practice, Rudyard Area Schools amends its budget quarterly during the school year. For the fiscal year 2005-2006, the budget was amended in November 2005 and April 2006. The April 2006 budget amendment was the final budget for the fiscal year. As a general rule, the Rudyard Area Schools Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does not budget for capital outlays in the original budget.

**General Fund Revenues, Change from Original to Final Budget:**

General Fund Revenues

Total Revenues Original Budget	\$ 9,277,956	100.00 %
Total Revenues Final Budget	<u>9,759,346</u>	<u>105.19</u>
Increase in Budgeted Revenues	<u>\$ 481,390</u>	<u>5.19 %</u>

The District's original General Fund revenues differed from final budget by \$481,390, a variance of 5.19%.

**General Fund Expenditures, Change from Original to Final Budget:**

General Fund Expenditures:

Total Expenditures Original Budget	\$ 9,495,893	100.00 %
Total Expenditures Final Budget	<u>9,874,923</u>	<u>103.84</u>
Increase in Budgeted Expenditures	<u>\$ 379,030</u>	<u>3.84 %</u>

The District's original General Fund expenditures differed from final budget by \$379,030, a variance of 3.84%.

**Factors bearing on the District's Future:**

At the time that these financial statements were prepared and audited, the district was aware of the following items that could significantly affect its financial health in the future:

- Rudyard Area Schools had a loss of 24 students for the February 2006 student count.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

- Rudyard Area Schools Foundation Allowance will increase by \$210 per student for the 2006-2007 school year.
- During the 2006-2007 school year, Rudyard Area Schools will eliminate two bus runs due to declining enrollment.
- Rudyard Area Schools has also acquired a new Counselors Grant for the two elementary buildings.

**Contacting the District's Financial Management:**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Administration Office, Rudyard Area Schools.

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 799,578
Taxes Receivable	60,190
Accounts Receivable	1,665,067
Inventories	48,232
Prepaid Expenses	108,098
Investments	1,330,105
Total Current Assets	4,011,270

NON CURRENT ASSETS

Capital Assets	16,850,055
Less Accumulated Depreciation	(9,743,222)
Total Non Current Assets	7,106,833

TOTAL ASSETS

\$ 11,118,103

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 41,737
State Aid Anticipation Note Payable	1,300,000
Accrued Interest Payable	74,594
Salaries and Fringes Payable	909,173
Deferred Revenue	26,491
Current Portion of Non Current Liabilities	233,074

Total Current Liabilities

2,585,069

NON CURRENT LIABILITIES

Bonds Payable	5,507,366
Early Retirement Payable	6,000
Note Payable	16,884
Compensated Absences	215,450
Less Current Portion of Non Current Liabilities	(233,074)

Total Non Current Liabilities

5,512,626

Total Liabilities

8,097,695

NET ASSETS

Invested in Capital Assets Net of Related Debt	1,582,583
Restricted for Debt Service	644,101
Unrestricted	793,724

Total Net Assets

3,020,408

TOTAL LIABILITIES AND NET ASSETS

\$ 11,118,103

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

				GOVERNMENTAL
				ACTIVITIES
				NET (EXPENSE)
				REVENUE AND
				CHANGES IN
				NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	OPERATING	
		CHARGES FOR	GRANTS	
		SERVICES		
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction				
Basic Programs	\$ 4,668,120	\$ 5,450	\$ 555,797	\$ (4,106,873)
Added Needs	1,366,644	0	950,791	(415,853)
Supporting Services				
Pupil	259,190	0		(259,190)
Instructional Staff	289,303	0	82,725	(206,578)
General Administration	178,405	0	0	(178,405)
School Administration	615,574	0	0	(615,574)
Business	305,818	0	0	(305,818)
Operation and Maintenance of Plant	978,745	39,684	5,336	(933,725)
Pupil Transportation Services	534,062	0	0	(534,062)
Supporting Services	59,515	0	0	(59,515)
Public Library	71,143	8,546	78	(62,519)
Food Service	400,385	124,262	280,934	4,811
Athletic Activities	193,716	35,755	0	(157,961)
Interest and Fiscal Charges	260,717	0	0	(260,717)
Other Transactions	218,009	0	0	(218,009)
Unallocated Depreciation	550,356	0	0	(550,356)
Total Governmental Activities	<u>\$10,949,702</u>	<u>\$ 213,697</u>	<u>\$ 1,875,661</u>	(8,860,344)
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				746,749
Property Taxes - Debt Service				344,717
Investment Earnings				78,957
State Sources				6,455,333
Other				705,082
Total General Revenues				<u>8,330,838</u>
Change in Net Assets				(529,506)
<u>NET ASSETS</u> - Beginning of Year				<u>3,549,914</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 3,020,408</u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 108,046	\$ 691,532	\$ 799,578
Taxes Receivable	44,873	15,317	60,190
Accounts Receivable	1,619,193	45,874	1,665,067
Due from Other Funds	87,557	1,206	88,763
Inventories	41,343	6,889	48,232
Prepaid Expenditures	108,098	0	108,098
Investments	1,330,105	0	1,330,105
TOTAL ASSETS	\$ 3,339,215	\$ 760,818	\$ 4,100,033
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 36,167	\$ 5,570	\$ 41,737
State Aid Anticipated Note Payable	1,300,000	0	1,300,000
Accrued Expenses	32,760	0	32,760
Salaries & Fringes Payable	880,432	28,741	909,173
Due to Other Funds	1,206	87,557	88,763
Deferred Revenue	58,159	12,128	70,287
Total Liabilities	2,308,724	133,996	2,442,720
<u>FUND BALANCES</u>			
Reserved for Inventories	41,343	6,889	48,232
Reserved for Prepaid Expenditures	108,098	0	108,098
Reserved for Debt Service	0	673,807	673,807
Unreserved, Designated for			
Forestry	88,735	0	88,735
Capital Outlay	99,028	7,742	106,770
Public Library	0	6,837	6,837
Food Service	0	1,834	1,834
Unreserved, Undesignated - (Deficit)	693,287	(70,287)	623,000
Total Fund Balances	1,030,491	626,822	1,657,313
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,339,215	\$ 760,818	\$ 4,100,033

The notes to the financial statements are an integral part of this statement.



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
STATEMENT OF NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances	\$ 1,657,313
----------------------------------	--------------

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the funds

The cost of the capital assets is	16,850,055	
Accumulated depreciation is	<u>(9,743,222)</u>	7,106,833

Long term liabilities are not due and payable in the current period and are not  
reported in the funds

Bonds Payable	(5,507,366)
Note Payable	(16,884)
Early Retirement Payable	(6,000)
Compensated Absences	(215,450)

Balance of taxes receivable at June 30, 2006, expected to be collected after September 1, 2006	43,796
---	--------

Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid	<u>(41,834)</u>
--	-----------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,020,408</u></u>
---------------------------------------	----------------------------

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 917,556	\$ 591,604	\$ 1,509,160
State Sources	6,855,782	45,673	6,901,455
Federal Sources	1,748,041	250,198	1,998,239
Other Transactions	11,354	0	11,354
Total Revenues	9,532,733	887,475	10,420,208
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	4,641,393	0	4,641,393
Added Needs	1,365,537	0	1,365,537
Supporting Services			
Pupil	259,190	0	259,190
Instructional Staff	280,007	0	280,007
General Administration	178,405	0	178,405
School Administration	625,980	0	625,980
Business	314,077	0	314,077
Operation and Maintenance of Plant	981,383	0	981,383
Pupil Transportation Services	594,400	0	594,400
Other Supporting Services	57,862	0	57,862
Public Library	0	71,143	71,143
Food Service	0	399,982	399,982
Athletic Activities	0	193,716	193,716
Capital Outlay	0	49,991	49,991
Debt Service			
Principal and Interest	0	437,246	437,246
Other Transactions	216,155	0	216,155
Total Expenditures	9,514,389	1,152,078	10,666,467
Excess (Deficiency) of Revenues Over Expenditures	18,344	(264,603)	(246,259)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	198,761	198,761
Transfers Out	(198,761)	0	(198,761)
Total Other Financing Sources (Uses)	(198,761)	198,761	0
Net Change in Fund Balance	(180,417)	(65,842)	(246,259)
<u>FUND BALANCE</u> - Beginning of Year	1,210,908	692,664	1,903,572
<u>FUND BALANCE</u> - End of Year	\$ 1,030,491	\$ 626,822	\$ 1,657,313

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ (246,259)
--	--------------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.  
These costs are allocated over their estimated useful lives as depreciation.

Assets Capitalized	108,627	
Depreciation Expense	<u>(550,356)</u>	(441,729)

Accrued interest on bonds is recorded in the statement of activities when incurred;  
it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year		43,736
Accrued Interest Payable - End of Year		(41,834)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	179,865
--	---------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.

Deferred Revenue - Earned But Unavailable - Beginning of Year		(43,808)
Deferred Revenue - Earned But Unavailable - End of Year		43,796

Employees Early Retirement and Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Early Retirement - Beginning of Year		24,000
Early Retirement - End of Year		(6,000)
Compensated Absences - Beginning of Year		174,177
Compensated Absences - End of Year		<u>(215,450)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (529,506)</u>
---	---------------------

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency Fund - Student Activities</u>	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 95,786	\$ 37,166
Investments	0	50,859
Due from Private Purpose Trust	28,000	0
Total Assets	\$ 123,786	\$ 88,025
<u>LIABILITIES</u>		
Due to Clubs and Organizations	\$ 123,786	\$ 28,000
<u>NET ASSETS</u>		
Reserved for Scholarships	0	60,025
Total Liabilities and Net Assets	\$ 123,786	\$ 88,025

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Income	\$ 2,136
<u>DEDUCTIONS:</u>	
Scholarship Payments	<u>(1,000)</u>
Net Increase (Decrease)	1,136
<u>Net Assets - Beginning of Year</u>	<u>58,889</u>
<u>Net Assets - End of Year</u>	<u><u>\$ 60,025</u></u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rudyard Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

The School District is located in Mackinaw and Chippewa Counties with its administrative offices located in Rudyard, Michigan. The District operates under an elected seven-member board of education and provides services to its 1,046 students in elementary, middle school, high school and special education instruction, guidance, health, transportation, food service, athletics and recreation. As required by generally accepted accounting principles, these financial statements present the School District and its component units, entities for which the School is considered to be financially accountable. There are no component units to be included in the District's reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following **major** governmental fund:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

**Other Non-major Funds**

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The *DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *CAPITAL PROJECTS FUNDS* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**Fiduciary Funds**

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

The *PRIVATE PURPOSE TRUST FUND* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where the principal is considered to be either expendable or non-expendable and the earnings may be spent. These funds are not reported on the District financial statements as they are not used to support District operations or programs.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

foundation allowance was based on pupil membership counts taken in February and September of 2005. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Rudyard Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as accounts receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental revenues require an accounting to the state of the expenditures incurred. For categorical revenues meeting this requirement, revenues received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical revenue is recognized when the appropriation is received.

**D. Assets, Liabilities and Equity**

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The School's Investment Policy authorizes the School District to invest in funds as follows:

- (a) Bonds, bills, or notes of the United States, obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the state.
- (b) Certificates of deposit issued by financial institutions which means a state or nationally-chartered bank or a state or federally-chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office in Michigan under Michigan and Federal laws.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States Government.
- (e) United States government or federal agency obligation repurchase agreements.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The above Investment Policy is in compliance with State Statutes.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund – Non-homestead	16.8009
1999 Debt Service Fund – Homestead and Non-homestead	3.7000

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. The General Fund inventories consist of supplies. The food service inventories are food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Improvements	5-50 years
Furniture and Fixtures	5-25 years
Machinery and Equipment	3-36 years
Vehicles and Other	3-15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000, as well as all technology assets.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

The District reports deferred revenue on its balance sheet and statement of net assets. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003.

9. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budgets are legally enacted through passage of a resolution.
4. All transfers of budget amounts and any amendments to the formal appropriation act are approved by the Board of Education.
5. The superintendent is charged with general supervision of the budgets.
6. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
7. Budgeted amounts are as originally adopted on June 16, 2005, or as amended by the School Board of Education on November 21, 2005 and April 17, 2006.

**B. Excess of Expenditures Over Appropriations**

Excess of expenditures over appropriations occurred in the following funds:

School Service Funds – Public Library expenditures of \$74,634 exceeded appropriations of \$73,300 by \$1,334. Food Service expenditures of \$399,983 exceeded appropriations of \$392,924 by \$7,059. These over expenditures were funded by available fund balance.

**(3) DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District's deposits and investments are all on deposit with Central State Bank and Michigan School District Liquid Asset Fund Plus.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 3 of the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$988,588 of the government's bank balance of \$1,372,710 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

Investments

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

Balance sheet classifications:

	Statement of Net Assets	Statement of Fiduciary Assets	Total
Cash	\$ 799,578	\$ 132,952	\$ 932,530
Investments	1,330,105	50,859	1,380,964
	<u>\$ 2,129,683</u>	<u>\$ 183,811</u>	<u>\$ 2,313,494</u>

**B. Receivables**

Receivables as of year end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables			
Taxes	\$ 44,873	\$ 15,317	\$ 60,190
Accounts Receivable	1,619,193	45,874	1,665,067
Total Receivables	<u>\$1,664,066</u>	<u>\$ 61,191</u>	<u>\$1,725,257</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent Property Taxes Receivable (General Fund)	\$ 31,668	\$ 0
Delinquent Property Taxes Receivable (Debt Service Funds)	12,128	0
Grants Receipts Received, But Not Yet Utilized	0	26,491
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 43,796</u>	<u>\$ 26,491</u>

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**C. Interfund Receivables, Payables and Transfers**

Interfund receivables and payables at June 30, 2006, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 87,557	\$ 1,206
School Services		
Food Service	0	16,773
Athletic Activities	0	70,784
Debt Retirement		
1999 Debt Service	<u>1,206</u>	<u>0</u>
	<u>\$ 88,763</u>	<u>\$ 88,763</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Transfer In:</u>			
	<u>General Fund</u>	<u>Building and Site Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
Transfers Out:				
General Fund	\$ 0	\$ 44,549	\$ 154,212	\$ 198,761
Building and Site Fund	44,549	0	0	44,549
Athletic Fund	154,212	0	0	154,212
Total	<u>\$ 198,761</u>	<u>\$ 44,549</u>	<u>\$ 154,212</u>	<u>\$ 397,522</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

**D. Lease Information**

*Operating Leases* – During the year, the school leased various equipment. The rent expense was \$41,160 for the year ending June 30, 2006. The rent expense was all minimum rental payments with no contingent rentals being paid. Also, on April 1, 2002, the school entered into a five-year lease agreement for office copiers. The future minimum lease payments for these leases are as follows:



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

<u>YEAR ENDING</u>	<u>AMOUNT</u>
2007	<u>\$ 30,872</u>

*Capital Leases* – The School District has entered into a lease agreement as lessee for financing the acquisition of a new tractor. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The tractor acquired through this lease has been capitalized, at a cost of \$27,360.

Asset	\$ 27,360
Less Accumulated Depreciation	<u>(3,648)</u>
Total	<u>\$ 23,712</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

2007	\$ 6,073
2008	6,073
2009	<u>6,073</u>
Total minimum lease payments	\$ 18,219
Less amount representing interest	<u>(1,335)</u>
Present value of minimum lease payments	<u>\$ 16,884</u>

**E. Capital Assets**

A summary of changes in the District's capital assets follows:

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated - Land	\$ 1,369	\$ 0	\$ 0	\$ 1,369
Other capital assets				
Land improvements	124,583	0	0	124,583
Buildings and improvements	12,973,231	9,590	0	12,982,821
Machinery and equipment	2,331,061	26,009	0	2,357,070
Furniture and fixtures	399,556	12,538	0	412,094
Transportation equipment and Other	911,628	60,490	0	972,118
Subtotal	16,740,059	108,627	0	16,848,686
Less accumulated depreciation				
Land improvements	6,770,411	245,554	0	7,015,965
Buildings and improvements	19,699	6,629	0	26,328
Machinery and equipment	1,556,306	206,960	0	1,763,266
Furniture and fixtures	138,207	30,276	0	168,483
Transportation equipment and Other	708,243	60,937	0	769,180
Total Accumulated Depreciation	9,192,866	550,356	0	9,743,222
Capital assets being depreciated	7,547,193	(441,729)	0	7,105,464
Total capital assets	\$ 7,548,562	\$(441,729)	\$ 0	\$ 7,106,833

Depreciation for the fiscal year ended June 30, 2006 amounted to \$550,356. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**F. Long-Term Debt**

The following is a summary of the Long-Term Debt transactions for the School District for the year ended June 30, 2006:

	BONDS PAYABLE	SELF LIQUIDATING SERIAL BONDS	ACCRUED EXPENSES	NOTES	TOTAL
Long-Term Debt at July 1, 2005	\$5,630,000	\$ 52,366	\$ 198,177	\$ 21,749	\$5,902,292
Increase (Decrease) in Accrued Expenses	0	0	41,273	0	41,273
New Debt Incurred	0	0		0	0
Debt Retired	(175,000)	0	(18,000)	(4,865)	(197,865)
 LONG-TERM DEBT AT JUNE 30, 2006	 \$5,455,000	 \$ 52,366	 \$ 221,450	 \$ 16,884	 \$5,745,700

At June 30, 2006, the School's Long-Term Debt consisted of the following:

General Obligation - Unlimited Tax Bonds

1989 School building bonds due in annual installments of \$70,000 through May 1, 2007 with interest at 6.95% \$ 70,000

Series 1998 Durant Bonds \*

Rudyard Area Schools elected to bond and received a lump sum amount of \$83,850. Annual installments are due in varying amounts between \$5,888 and \$27,785 through May 15, 2013, including interest at 4.27% per annum. 52,366

General Obligation - Unlimited Tax Bonds

1999 School Building and Site Bonds due in annual installments of \$130,000 to \$430,000 through May 1, 2021, with interest varying from 4.20% to 4.65% per annum. 5,385,000

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

Other Long-Term Debt

\$27,360 capital lease for New Holland Tractor. Annual installments are due in amounts of \$6,073 through February 15, 2009 including interest at 5.5% per annum. 16,884

Accrued Employee Benefits

Early retirement incentive payable 6,000  
Sick leave payable 215,450

Total Accrued Employee Benefits 221,450

5,745,700

Less Current Portion of Long-Term Debt 233,074

\$ 5,512,626

\*An annual State of Michigan appropriation makes the debt service payments; however, the Bonds shall not be in any way a debt or liability of the State of Michigan. However, if the Michigan legislature fails to appropriate the funds, the School District is under no obligation for payment.

The annual requirements to amortize all debts outstanding, except accumulated sick pay, as of June 30, 2006, including interest payments of \$2,229,482, are as follows:

Year ending June 30,	PRINCIPAL	INTEREST	TOTAL
2007	\$ 233,074	\$ 253,266	\$ 486,340
2008	235,136	237,983	473,119
2009	265,800	228,084	493,884
2010	289,982	216,904	506,886
2011	325,195	204,721	529,916
2012-2016	2,031,063	789,213	2,820,276
2017-2021	<u>2,150,000</u>	<u>299,311</u>	<u>2,449,311</u>
	<u>\$5,530,250</u>	<u>\$2,229,482</u>	<u>\$7,759,732</u>

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The accumulated sick pay is not included in the above schedule of annual requirements because it is not known which years the employees will retire and receive a payment for the accumulated sick pay.

**G. Short-Term Debt**

On August 20, 2005, the District issued a State Aid Note in the amount of \$1,300,000. The note matures on August 19, 2006 with interest at 2.92%. The District has pledged its future State Aid revenue for payment of this liability at maturity. Interest expense for the year was \$35,525. The balance at June 30, 2005 and 2006 was \$1,300,000 and \$1,300,000 respectively.

(4) OTHER INFORMATION

**A. Employee Retirement System**

*Plan Description.* Rudyard Area Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. General oversight of the retirement system resides with the MPERS' board. MPERS provides retirement and disability and survivor benefits with annual 3% increases in pensions of members who are in the Member Investment Plan. With certain exceptions, pension recipients are also eligible for Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage. Benefits are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Office of Retirement Systems, Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing Michigan 48909 or by calling 1-517-322-5103.

*Funding Policy.* Members Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the first quarter of the year ended June 30, 2006, was 14.87%, and for the last three quarters it was 16.34%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$884,424, \$783,889 and \$706,269 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

*Other Post-employment Benefits.*

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**B. Related Party Transaction**

During the year the District purchased \$17,623 of supplies and materials from a company controlled by a school board member.

**C. Single Audit Report**

The School District is required to have an audit when federal funds expended exceed \$500,000. For the year ended June 30, 2006, the District did expend in excess of \$500,000 of federal funds, thus a single audit was necessary.

**D. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**E. Accumulated Sick Pay**

The contracts for teachers and non-teaching personnel have various provisions for the accumulation of sick pay. Upon retirement or termination, if the employee has met certain contract provisions, the employee may receive a cash payment for the accumulated sick pay. At June 30, 2006, the liability to the employees for accumulated sick leave and related fringe benefits is estimated at \$215,450. It is reasonably possible that the estimated liability could change significantly due to non-vested teachers leaving the district or a higher or lower than normal use of employee sick leave.

**F. Early Retirement Incentive**

Teachers are eligible for early retirement upon reaching age 55 with at least 10 years of service. In general, the early retirement incentive includes two options:

1. An annual stipend for up to five years, or until the retiree's sixtieth birthday, equal to \$5,000 or \$6,000 per year depending on the level of education obtained by the time of retirement; or
2. One time stipend payment of 75% of the total accrual in Option 1.

At June 30, 2006, the total early retirement incentive payable was \$6,000.

**G. Deficit Fund Balance**

The District had a deficit fund balance in its Athletic Activities Fund in the amount of \$70,287.

**H. Designated and Reserved Fund Balance**

The School has reserved or designated the fund balances as follows:

1. Food Service, Public Library and Debt Service Funds  
The School's policy is to show fund balance of the Food Service Fund, Public Library Fund and Debt Service Funds as designated or reserved for those purposes.
2. Forestry  
The board has designated proceeds from timber harvested from the school forest.
3. Capital Outlay  
The board has designated a portion of its fund balance for future capital outlay expenditures.
4. Inventory and Prepaid Expenditures  
The General Fund balance and Food Service Fund balance are reserved for inventories to emphasize that these amounts are not appropriable for other purposes. Also, the General Fund balance is reserved for prepaid expenditures for the same reason.

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
<u>LOCAL SOURCES</u>			
Property Taxes	\$ 751,087	\$ 747,087	\$ 746,749
Earnings on Investments and Deposits	35,000	46,000	59,751
Tuition	21,000	10,000	5,450
Rent	44,000	40,000	39,684
Miscellaneous Local Revenues	78,500	69,000	65,922
Total Local Sources	929,587	912,087	917,556
<u>STATE SOURCES</u>			
Grants-In-Aid Unrestricted			
State School Aid			
Foundation Allowance	5,948,226	6,263,445	6,263,445
Foundation Allowance-			
Special Education	162,040	175,065	175,065
State Aid Adjustments	0	0	1,886
Grants-In-Aid Restricted			
At Risk	382,052	309,824	310,129
Durant Settlement	8,385	14,273	8,385
Michigan School Readiness	105,600	116,663	96,872
Total State Sources	6,606,303	6,879,270	6,855,782



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>FEDERAL SOURCES</u>			
Grants-In-Aid Restricted			
Impact Aid	300,000	471,908	471,909
Standing Tall Against Negative Decisions	405,198	600,716	405,767
Received Through State			
Title I	392,116	388,307	378,641
Title II- Improving Teacher Quality	89,291	86,862	82,725
Title II-D Education Technology	8,944	6,566	6,566
Title V LEA Allocation	14,448	12,507	8,105
Title VII Indian Education	88,776	91,150	91,150
Class Size Reduction	120,025	268	268
Received Through Intermediate School District			
Special Education	165,000	156,200	156,200
State Preparedness Equipment			
Support Program	5,028	0	5,336
21st Century	30,240	44,505	44,505
National Forest - Schools & Roads	102,000	97,000	96,869
Total Federal Sources	1,721,066	1,955,989	1,748,041
<u>OTHER TRANSACTIONS</u>			
Received from Other Districts	21,000	12,000	11,354
 TOTAL REVENUES	 \$ 9,277,956	 \$9,759,346	 \$9,532,733

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>EXPENDITURES</u>			
<u>INSTRUCTION</u>			
<u>Basic Programs</u>			
<u>Elementary</u>			
Salaries	\$ 1,105,906	\$ 1,245,532	\$ 1,254,048
Employee Benefits	567,214	612,719	578,110
Purchased Services	7,000	8,305	6,290
Supplies and Materials	19,601	30,314	26,945
Total Elementary	1,699,721	1,896,870	1,865,393
<u>Middle School</u>			
Salaries	632,525	599,721	592,874
Employee Benefits	300,937	272,668	275,866
Purchased Services	3,900	3,900	2,101
Supplies and Materials	13,724	13,724	14,857
Total Middle School	951,086	890,013	885,698
<u>High School</u>			
Salaries	769,268	1,163,389	1,069,514
Employee Benefits	368,685	542,243	519,902
Purchased Services	18,000	160,161	103,702
Supplies and Materials	18,454	96,711	84,500
Capital Outlay	0	29,050	5,809
Other Expense	0	8,157	10,003
Total High School	1,174,407	1,999,711	1,793,430
<u>Pre-School (Early 4's)</u>			
Salaries	60,831	75,945	71,900
Employee Benefits	13,021	17,639	17,098
Purchased Services	19,844	3,755	2,553
Supplies and Materials	7,204	16,024	5,321
Capital Outlay	4,700	0	0
Total Pre-School	105,600	113,363	96,872

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Added Needs</u>			
<u>Special Education</u>			
Salaries	312,523	334,595	325,149
Employee Benefits	130,452	176,983	169,103
Purchased Services	3,250	750	5,415
Supplies and Materials	23,003	4,635	25,554
Capital Outlay	0	21,750	6,815
Other Expense	0	3,993	3,817
Total Special Education	469,228	542,706	535,853
<u>Compensatory Education</u>			
Salaries	445,218	445,600	435,647
Employee Benefits	278,988	294,898	341,647
Purchased Services	12,701	6,508	14,094
Supplies and Materials	64,069	32,600	11,269
Capital Outlay	24,931	18,447	10,477
Other Expense	0	10,385	10,338
Total Compensatory Education	825,907	808,438	823,472
<u>Vocational Education</u>			
Salaries	118,128	0	0
Employee Benefits	66,257	0	0
Purchased Services	1,500	1,500	0
Supplies and Materials	4,000	2,500	6,212
Capital Outlay	2,000	2,000	0
Total Vocational Education	191,885	6,000	6,212
<u>Adult/Continuing Education</u>			
<u>Enrichment Programs</u>			
Salaries	169,086	0	0
Employee Benefits	83,807	0	0

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Purchased Services	132,879	0	0
Supplies and Materials	25,837	0	0
Other	23,829	0	0
Total Enrichment Programs	435,438	0	0

SUPPORTING SERVICES

Pupil

Guidance Services

Salaries	48,644	51,195	51,195
Employee Benefits	26,367	26,917	26,989
Supplies and Materials	1,000	0	240
Total Guidance Services	76,011	78,112	78,424

Health Services

Salaries	51,100	52,000	52,607
Employee Benefits	18,971	19,052	18,146
Purchased Services	3,000	3,000	2,209
Supplies and Materials	4,500	4,500	5,581
Total Health Services	77,571	78,552	78,543

Speech Pathology and Audiology Services

Purchased Services	112,000	90,000	102,223
--------------------	---------	--------	---------

Other Pupil Support

Supplies and Materials	6,900	0	0
------------------------	-------	---	---

Instructional Staff

Improvement of Instruction

Salaries	55,204	55,389	56,332
Employee Benefits	22,590	24,531	23,093
Purchased Services	4,989	5,257	1,329
Supplies and Materials	0	1,953	1,953

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Other Expense	1,953	0	0
Total Improvement of Instruction	84,736	87,130	82,707
<u>Educational Media Services</u>			
Salaries	47,382	47,387	46,865
Employee Benefits	33,645	33,269	33,627
Total Educational Media Services	81,027	80,656	80,492
<u>Technology Assisted Instruction</u>			
Salaries	40,860	40,860	44,903
Employee Benefits	28,744	16,516	10,551
Purchased Services	26,200	26,200	48,075
Supplies and Materials	17,000	17,000	8,527
Capital Outlay	0	0	279
Total Technology Assisted Instruction	112,804	100,576	112,335
<u>Supervision and Direction of Instructional Staff</u>			
Employee Benefits	3,625	0	0
Purchases Services	2,000	0	0
Total Supervision and Direction of Instructional Staff	5,625	0	0
<u>Academic Student Assessment</u>			
Salaries	0	0	2,162
Employee Benefits	0	0	519
Purchased Services	1,500	1,500	1,792
Total Academic Student Assessment	1,500	1,500	4,473

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>General Administration</u>			
<u>Board of Education</u>			
Purchased Services	30,600	31,700	37,142
Supplies and Materials	2,000	3,400	1,149
Other Expense	2,000	2,000	0
Total Board of Education	34,600	37,100	38,291
<u>Executive Administration</u>			
Salaries	90,795	96,699	97,047
Employee Benefits	34,360	35,260	25,415
Purchased Services	5,500	4,000	12,612
Supplies and Materials	3,000	3,000	3,905
Other Expense	1,500	1,500	1,135
Total Executive Administration	135,155	140,459	140,114
<u>School Administration</u>			
<u>Office of the Principal</u>			
Salaries	364,353	384,907	434,425
Employee Benefits	188,853	194,890	176,802
Purchased Services	20,800	17,900	11,045
Supplies and Materials	6,000	6,000	3,137
Other Expenses	6,000	4,000	571
Total Office of the Principal	586,006	607,697	625,980
<u>Business</u>			
<u>Fiscal Services</u>			
Salaries	117,890	120,910	116,709
Employee Benefits	52,992	54,945	58,114
Purchased Services	4,656	4,158	7,096
Supplies and Materials	2,000	1,500	0
Other Expenses	575	575	0
Total Fiscal Services	178,113	182,088	181,919

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Other Business Services</u>			
Purchased Services	55,000	55,000	55,986
Other Expenses	59,050	65,900	76,172
Total Other Business Services	114,050	120,900	132,158
<u>Operations and Maintenance</u>			
<u>Operating Building Services</u>			
Salaries	328,586	330,682	337,303
Employee Benefits	218,343	249,771	256,716
Purchased Services	111,275	100,775	60,916
Supplies and Materials	322,550	302,995	326,348
Capital Outlay	0	0	100
Total Operation and Maintenance	980,754	984,223	981,383
<u>Pupil Transportation Services</u>			
<u>Pupil Transportation Services</u>			
Salaries	261,162	261,162	278,265
Employee Benefits	145,968	139,279	123,004
Purchased Services	27,325	18,475	32,361
Supplies and Materials	88,000	91,200	99,999
Capital Outlay	0	60,000	60,490
Other Expenses	325	325	281
Total Pupil Transportation Services	522,780	570,441	594,400
<u>Support Services - Central</u>			
<u>Other Central Services</u>			
Purchased Services	4,500	4,500	4,691
Supplies and Materials	1,200	1,200	856
Total Other Central Services	5,700	5,700	5,547

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Support Services - Other</u>			
<u>Pupil Activities</u>			
Salaries	51,000	41,000	43,925
Employee Benefits	11,577	9,890	7,739
Purchased Services	0	0	651
Total Pupil Activities	62,577	50,890	52,315
<u>Other Support Services</u>			
Purchased Services	7,500	500	0
<u>OTHER TRANSACTIONS</u>			
Adjustment to prior year accounts	0	0	1,112
Transfer to Other Governmental Units			
Vocational Education	43,000	59,000	69,974
Special Education	215,000	155,000	145,069
Total Other Transactions	258,000	214,000	216,155
Total Expenditures	9,296,681	9,687,625	9,514,389
Excess (Deficiency) of Revenues			
Over Expenditures	(18,725)	71,721	18,344
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	(196,223)	(187,298)	(198,761)
Net Change in Fund Balance	(214,948)	(115,577)	(180,417)
<u>FUND BALANCE</u> - Beginning of Year	1,678,825	1,210,908	1,210,908
<u>FUND BALANCE</u> - End of Year	\$ 1,463,877	\$ 1,095,331	\$ 1,030,491



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Nonmajor Special Revenue Funds		
	Public Library	Food Service	Athletics
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 9,311	\$ 0	\$ 576
Taxes Receivable	0	0	0
Accounts Receivable	3,801	41,883	190
Due from Other Funds	0	0	0
Inventories	0	6,889	0
Total Assets	<u>\$ 13,112</u>	<u>\$ 48,772</u>	<u>\$ 766</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 723	\$ 87	\$ 269
Due to Other Funds	0	16,773	70,784
Deferred Revenue	0	0	0
Accrued Salaries and Related Liabilities	5,552	23,189	0
Total Liabilities	<u>6,275</u>	<u>40,049</u>	<u>71,053</u>
<u>FUND BALANCE</u>			
Reserved:			
Reserved for Inventories	0	6,889	0
Unreserved:			
Undesignated - (Deficit)	0	0	(70,287)
Designated	6,837	1,834	0
Total Fund Balance - (Deficit)	<u>6,837</u>	<u>8,723</u>	<u>(70,287)</u>
Total Liabilities and Fund Balance	<u>\$ 13,112</u>	<u>\$ 48,772</u>	<u>\$ 766</u>

Nonmajor Debt Service Funds			Nonmajor Capital Project Funds		Total Nonmajor Governmental Funds
1999 Debt Service	1998 Durant Debt Service	1989 Debt Service	Building & Site	Building Renovations	
\$ 308,435	\$ 0	\$ 360,977	\$ 10,011	\$ 2,222	\$ 691,532
10,562	0	4,755	0	0	15,317
0	0	0	0	0	45,874
1,206	0	0	0	0	1,206
0	0	0	0	0	6,889
<u>\$ 320,203</u>	<u>\$ 0</u>	<u>\$ 365,732</u>	<u>\$ 10,011</u>	<u>\$ 2,222</u>	<u>\$ 760,818</u>
\$ 0	\$ 0	\$ 0	\$ 4,491	\$ 0	\$ 5,570
0	0	0	0	\$ 0	87,557
7,373	0	4,755	0	0	12,128
0	0	0	0	0	28,741
<u>7,373</u>	<u>0</u>	<u>4,755</u>	<u>4,491</u>	<u>0</u>	<u>133,996</u>
0	0	0	0	0	6,889
0	0	0	0	0	(70,287)
312,830	0	360,977	5,520	2,222	690,220
<u>312,830</u>	<u>0</u>	<u>360,977</u>	<u>5,520</u>	<u>2,222</u>	<u>626,822</u>
<u>\$ 320,203</u>	<u>\$ 0</u>	<u>\$ 365,732</u>	<u>\$ 10,011</u>	<u>\$ 2,222</u>	<u>\$ 760,818</u>

RUDYARD, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Nonmajor Special Revenue Funds		
	Public Library	Food Service	Athletics
<u>REVENUES</u>			
Local Sources	\$ 65,585	\$ 124,262	\$ 36,177
State Sources	9,049	30,736	0
Federal Sources	0	250,198	0
Total Revenues	74,634	405,196	36,177
<u>EXPENDITURES</u>			
Support Services:			
Food Service	0	399,982	0
Athletics	0	0	193,716
Community Services:			
Library	71,143	0	0
Principal and Interest	0	0	0
Capital Outlay	0	0	0
Total Expenditures	71,143	399,982	193,716
Excess (Deficiency) of Revenues over Expenditures	3,491	5,214	(157,539)
Other Financing Sources			
Operating Transfers	0	0	154,212
Net Change in Fund Balance	3,491	5,214	(3,327)
<u>Fund Balance</u> - July 1, 2005 - (Deficit)	3,346	3,509	(66,960)
<u>Fund Balance</u> - June 30, 2006 - (Deficit)	\$ 6,837	\$ 8,723	\$ (70,287)

Nonmajor Debt Service Funds			Nonmajor Capital Project Funds		Total Nonmajor Governmental Funds
1999 Debt Service	1998 Durant Debt Service	1989 Debt Service	Building & Site	Building Renovations	
\$ 349,976	\$ 0	\$ 15,064	\$ 462	\$ 78	\$ 591,604
0	5,888	0	0	0	45,673
0	0	0	0	0	250,198
349,976	5,888	15,064	462	78	887,475
0	0	0	0	0	399,982
0	0	0	0	0	193,716
0	0	0	0	0	71,143
351,328	5,888	80,030	0	0	437,246
0	0	0	49,491	500	49,991
351,328	5,888	80,030	49,491	500	1,152,078
(1,352)		(64,966)	(49,029)	(422)	(264,603)
0	0	0	44,549	0	198,761
(1,352)	0	(64,966)	(4,480)	(422)	(65,842)
314,182	0	425,943	10,000	2,644	692,664
\$ 312,830	\$ 0	\$ 360,977	\$ 5,520	\$ 2,222	\$ 626,822

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

FIDUCIARY FUND TYPES  
AGENCY FUND

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2006

	BALANCE 07/01/05	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Art	\$ 3,824	\$ 4,313	\$ 3,731	\$ 4,406
School Store	1,512	6,100	6,859	753
Band	997	6,799	3,612	4,184
Boys Track	(68)	839	612	159
Boys Varsity Basketball	(1,045)	1,790	900	(155)
Business Professionals of America	541	0	541	0
Cheerleaders	138	235	235	138
Chorus	594	5,116	3,889	1,821
Cross Country	1,735	0	0	1,735
Baseball	1,277	3,107	3,560	824
Drama	1,205	3,555	2,837	1,923
FFA	152	0	0	152
FHA	143	0	0	143
Girls Track	326	0	400	(74)
French Club	21	21	20	22
Fine Arts	12,596	3,950	5,876	10,670
Girls Basketball	882	517	200	1,199
Girls Softball	1,715	300	681	1,334
Golf	(367)	1,005	796	(158)
Health Careers	(112)	0	0	(112)
Jeff Dickenson Memorial	5	0	0	5
Library Auxiliary Fund	4,442	1,174	2,728	2,888
Middle School Drama	770	211	207	774
Middle School Project Close Up	(203)	0	0	(203)
Middle School Student Council	9,703	14,516	17,561	6,658
National Honor Society	9	947	721	235
New Scoreboard	311	0	0	311
Personal Living	40	0	0	40
Project Close Up	840	4,274	5,474	(360)
RAS Athletics Memorial	111	0	400	(289)
SADD	616	1,062	534	1,144
School Newspaper	97	239	78	258
Shop	2,104	888	508	2,484
Spirit Team	6	0	112	(106)
Stand	377	0	0	377
High School Student Council	1,139	1,817	1,203	1,753
Swim Club	(357)	426	519	(450)
Teachers Flower Fund	(507)	20	388	(875)
Varsity Club	1,317	369	598	1,088
Varsity Football	1,095	4,617	6,330	(618)
JV & Varsity Girls Volleyball	1,617	2,316	2,073	1,860

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

FIDUCIARY FUND TYPES  
AGENCY FUND

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2006

	BALANCE 07/01/05	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Wrestling	1,212	4,009	2,959	2,262
6th Grade Alt Program	(1,716)	0	0	(1,716)
Elem Boys BB	0	976	319	657
Class of 1996	195	0	0	195
Class of 1997	3,349	0	0	3,349
Class of 1999	2,801	0	0	2,801
Class of 2000	81	0	0	81
Class of 2002	2,123	0	0	2,123
Class of 2003	1,648	0	0	1,648
Class of 2004	1,675	0	0	1,675
Junior Service Club	276	0	0	276
Revolving Loan Fund	10,821	4,277	12,256	2,842
Class of 2006	5,811	11,843	15,090	2,564
Yearbook 2000-2001	237	35	0	272
Class of 2005	4,642	230	0	4,872
Class of 2007	10,341	9,451	7,667	12,125
Ski Club	2,176	0	0	2,176
Senior Celebration	3,214	8,992	11,910	296
Soccer	367	0	0	367
Yearbook	848	9,201	9,635	414
Class of 2008	8,613	5,154	4,046	9,721
Class of 2009	2,023	6,841	280	8,584
RAS 100 Club	2,936	3,199	2,113	4,022
Young Authors Club	2,043	471	759	1,755
RJW Playground Fund	0	13,459	6,504	6,955
Interest Payable	2,801	4,225	1,979	5,047
8th Grade Pub	326	500	0	826
Rudyard Area Schools	20,341	0	20,341	0
Weight Room	0	133	0	133
Midnight Madness	0	1,950	424	1,526
	<u>\$ 138,782</u>	<u>\$ 155,469</u>	<u>\$ 170,465</u>	<u>\$ 123,786</u>
Represented by				
Assets				
Cash	\$ 110,782			\$ 95,786
Due from Private Purpose Trust	28,000			28,000
Total Assets	<u>\$ 138,782</u>			<u>\$ 123,786</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 138,782</u>			<u>\$ 123,786</u>

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN  
SCHEDULE OF 2005 TAX ROLL  
YEAR ENDED JUNE 30, 2006

	TAXABLE VALUATION	TAXES ASSESSED	TAXES COLLECTED	TAXES RETURNED DELINQUENT
<u>GENERAL FUND ( 16.8009 MILLS)</u>				
<u>CHIPPEWA COUNTY</u>				
Rudyard	\$ 9,344,023	\$ 156,988	\$ 130,170	\$ 26,818
Trout Lake	12,282,020	206,349	181,947	24,402
Kinross	18,748,905	314,998	275,983	39,015
Dafter	1,764,527	29,646	26,293	3,353
<u>MACKINAC COUNTY</u>				
St. Ignace	816,945	13,725	11,846	1,879
Marquette	114,798	1,929	1,851	78
Brevort	1,375,735	23,114	21,591	1,523
	<u>\$ 44,446,953</u>	<u>\$ 746,749</u>	<u>\$ 649,681</u>	<u>\$ 97,068</u>
 <u>1999 DEBT RETIREMENT FUND ( 3.7000 MILLS)</u>				
<u>CHIPPEWA COUNTY</u>				
Rudyard	\$ 28,160,155	\$ 104,094	\$ 90,503	\$ 13,591
Trout Lake	19,424,600	71,853	63,621	8,232
Kinross	37,006,808	136,809	121,685	15,124
Dafter	4,902,953	18,110	15,910	2,200
<u>MACKINAC COUNTY</u>				
St. Ignace	1,655,334	6,124	4,825	1,299
Marquette	353,147	1,307	1,290	17
Brevort	1,738,464	6,432	6,099	333
	<u>\$ 93,241,461</u>	<u>\$ 344,729</u>	<u>\$ 303,933</u>	<u>\$ 40,796</u>

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SCHEDULE OF INVESTMENTS  
JUNE 30, 2006

	<u>RATE</u>	<u>AMOUNT</u>
<u>GENERAL FUND</u>		
Michigan School District		
Liquid Asset Fund Plus		
MICMS	3.11%	\$      236
MIMAX	3.89%	<u>1,329,869</u>
		<u><u>\$1,330,105</u></u>



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

1989 BONDS PAYABLE SCHEDULE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1989 BOND ISSUE
<u>DATE OF ISSUE</u>	July 1, 1989
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 750,000
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 610,000
Current Year	<div style="display: flex; justify-content: space-between;"> <span><u>70,000</u></span> <span><u>680,000</u></span> </div>
<u>BALANCE OUTSTANDING</u> - June 30, 2006	<div style="display: flex; justify-content: space-between;"> <span><u>\$ 70,000</u></span> </div>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2006			\$ 2,433	\$ 2,433
May 1, 2007	6.95%	\$ 70,000	2,432	72,432
		<div style="display: flex; justify-content: space-between;"> <span><u>\$ 70,000</u></span> <span><u>\$ 4,865</u></span> <span><u>\$ 74,865</u></span> </div>		

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

1998 DURANT BOND SCHEDULE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1998 DURANT BOND ISSUE		
<u>DATE OF ISSUE</u>	November 15, 1998		
<u>INTEREST PAYABLE</u>	May 15 Annually		
<u>AMOUNT OF ISSUE</u>		\$	83,850
<u>AMOUNT REDEEMED</u>			
Prior to Current Year		\$	31,484
Current Year			<u>0</u>
			<u>31,484</u>
<u>BALANCE OUTSTANDING - June 30, 2006</u>		\$	<u><u>52,366</u></u>

<u>DUE DATES</u>	INTEREST RATES	REQUIREMENTS		
		PRINCIPAL	INTEREST	TOTAL
May 15, 2007	4.27%	\$ 21,764	\$ 6,021	\$ 27,785
May 15, 2008	4.27%	4,583	1,305	5,888
May 15, 2009	4.27%	4,779	1,110	5,889
May 15, 2010	4.27%	4,982	906	5,888
May 15, 2011	4.27%	5,195	693	5,888
May 15, 2012	4.27%	5,416	472	5,888
May 15, 2013	4.27%	5,647	241	5,888
		<u>\$ 52,366</u>	<u>\$ 10,748</u>	<u>\$ 63,114</u>

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

1999 BOND ISSUE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1999 BOND ISSUE	
<u>DATE OF ISSUE</u>	November 1, 1999	
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year	
<u>INTEREST RATE</u>	4.20% to 4.65%	
<u>AMOUNT OF ISSUE</u>		\$ 5,750,000
<u>AMOUNT REDEEMED</u>		
Prior to Current Year	\$ 260,000	
Current Year	<u>105,000</u>	<u>365,000</u>
<u>BALANCE OUTSTANDING - June 30, 2006</u>		<u>\$ 5,385,000</u>

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2006		\$ 120,809	\$ 120,809
May 1, 2007	\$ 130,000	120,809	250,809
November 1, 2007		118,079	118,079
May 1, 2008	225,000	118,079	343,079
November 1, 2008		113,354	113,354
May 1, 2009	255,000	113,354	368,354
November 1, 2009		107,999	107,999
May 1, 2010	285,000	107,999	392,999
November 1, 2010		102,014	102,014
May 1, 2011	320,000	102,014	422,014
November 1, 2011		99,133	99,133
May 1, 2012	355,000	99,134	454,134
November 1, 2012		87,412	87,412
May 1, 2013	390,000	87,413	477,413

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

1999 BOND ISSUE  
JUNE 30, 2006

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2013		78,832	78,832
May 1, 2014	425,000	78,833	503,833
November 1, 2014		69,270	69,270
May 1, 2015	425,000	69,270	494,270
November 1, 2015		59,601	59,601
May 1, 2016	425,000	59,602	484,602
November 1, 2016		49,841	49,841
May 1, 2017	430,000	49,842	479,842
November 1, 2017		39,882	39,882
May 1, 2018	430,000	39,883	469,883
November 1, 2018		29,939	29,939
May 1, 2019	430,000	29,939	459,939
November 1, 2019		19,995	19,995
May 1, 2020	430,000	19,995	449,995
November 1, 2020		9,997	9,997
May 1, 2021	430,000	9,998	439,998
	<u>\$ 5,385,000</u>	<u>\$ 2,212,321</u>	<u>\$ 7,597,321</u>

**RUDYARD AREA SCHOOLS**

**RUDYARD, MICHIGAN**

**SINGLE AUDIT**

**JUNE 30, 2006**

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SINGLE AUDIT  
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	1-2
Schedule of Expenditures of Federal Awards	3-4
Notes to Schedule of Expenditures of Federal Awards	5-6
Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7-8
Summary Schedule of Prior Audit Findings	9
Schedule of Findings and Questioned Costs	10-11

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

August 3, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Rudyard Area Schools  
Rudyard, Michigan

COMPLIANCE

We have audited the compliance of Rudyard Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Rudyard Area Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rudyard Area Schools' management. Our responsibility is to express an opinion on Rudyard Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rudyard Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rudyard Area Schools' compliance with those requirements.

In our opinion, Rudyard Area Schools complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## INTERNAL CONTROL OVER COMPLIANCE

The management of Rudyard Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rudyard Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Rudyard Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Rudyard Area Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
<b>U.S. Department of Education</b>								
Impact Aid	84.041	\$ 471,909	\$ 0	\$ 403,601	\$ 471,909	\$ 471,909	\$ 0	\$ 0
Indian Education								
Project No. B060A050047	84.060A	91,150	44,530	88,776	91,150	105,933	29,747	0
Safe and Drug Free Schools and Communities								
Project No. Q184A040088	84.184A	799,062	53,740	198,376	405,767	329,411	130,096	0
Passed Through Michigan Department of Education (M.D.E.)								
Title I - Part A								
Project No. 061530-0506	84.010	351,936	0	0	342,270	220,023	122,247	0
Project No. 041530-0405	84.010	40,179	11,054	40,179	0	11,054	0	0
Project No. 051530-0506	84.010	351,936	116,764	315,565	36,371	142,036	11,099	0
Total	84.010	744,051	127,818	355,744	378,641	373,113	133,346	0
Title V LEA Allocation								
Project No. 040250-0405	84.298	3,248	3,248	3,248	0	3,248	0	0
Project No. 050250-0506	84.298	14,448	5,369	10,803	3,645	7,708	1,306	0
Project No. 060250-0506	84.298	8,862	0	0	4,460	0	4,460	0
Total	84.298	26,558	8,617	14,051	8,105	10,956	5,766	0
Technology Literacy Challenge Grants								
Project No. 064290-0506	84.318	6,566	0	0	6,566	5,578	988	0
Project No. 054290-0405	84.318	8,944	6,225	8,944	0	6,225	0	0
Total	84.318	15,510	6,225	8,944	6,566	11,803	988	0
Comprehensive School Reform Demonstration								
Project No. 041870-0405	84.332	99,750	12,199	99,482	268	12,467	0	0
Rural and Low Income Schools								
Project No. 040660-0405	84.358	5,028	902	5,028	0	902	0	0
Improving Teacher Quality								
Project No. 060520-0506	84.367	86,862	0	0	82,725	60,031	22,694	0
Project No. 040520-0405	84.367	15,924	5,556	15,924	0	5,556	0	0
Project No. 040520-0405	84.367	89,291	18,259	89,291	0	18,259	0	0
Total	84.367	192,077	23,815	105,215	82,725	83,846	22,694	0
Total Passed Through M.D.E.		1,082,974	179,576	588,464	476,305	493,087	162,794	0

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
Passed Through E.U.P. Intermediate School District (I.S.D.) Special Education - Flowthrough - IDEA Project No. 060450-0506 Project No. 050450-0405 Total	84.027 84.027 84.027	128,899 164,934 293,833	0 16,200 16,200	0 164,934 164,934	156,200 0 156,200	156,200 16,200 172,400	0 0 0	0 0 0
21st Century Community Learning Center Project No. 062110/04028  Total Passed Through E.U.P.I.S.D.  <b>Total U.S. Department of Education</b>	84.287	44,505 338,338 2,783,433	0 16,200 294,046	0 164,934 1,444,151	44,505 200,705 1,645,836	35,414 207,814 1,608,154	9,091 9,091 331,728	0 0 0
<b>U.S. Department of Homeland Security</b> Passed Through the Michigan State Police State Domestic Preparedness Equipment Support Program  <b>Total U.S. Department of Homeland Security</b>	97.004	5,336 5,336	0 0	0 0	5,336 5,336	5,336 5,336	0 0	0 0
<b>U.S Department of Agriculture</b>  Passed Through Michigan Department of Education Child Nutrition Cluster National School Lunch Section 4 - Total Servings - 051950 and 061950 Snack Program - 051980 and 061980 Section 11 - Total Servings - 051960 and 061960 Total  National School Lunch - Breakfast Breakfast - 051970 and 061970  Total Child Nutrition Cluster  Food Distribution Entitlement Commodities Bonus Commodities Total  Summer Food Service Program For Children Project No. 040900 Project No. 041900  Total Passed Through M.D.E.  Passed Through County Schools and Roads National Forest Land  <b>Total U.S. Department of Agriculture</b>  <b>Total Federal Financial Assistance</b>	10.555 10.555 10.555 10.555  10.553   10.550 10.550 10.550  10.559 10.559 10.559  10.665	25,169 3,439 143,254 171,862  49,028 220,890  26,457 2,851 29,308  0 0 0  96,869 347,067	823 0 4,449 5,272  2,099 7,371  0 0 0  0 0 0  0	25,400 1,911 133,443 160,754  39,398 200,152  30,674 3,255 33,929  0 0 0  91,420	25,169 3,439 143,254 171,862  49,028 220,890  26,457 2,851 29,308  0 0 0  96,869	22,350 2,973 126,698 152,021  42,899 194,920  26,457 2,851 29,308  0 0 0  96,869	3,642 466 21,005 25,113  8,228 33,341  0 0 0  0	0 0 0 0  0 0 0  0 0 0  0
		\$ 3,135,836	\$ 301,417	\$ 1,769,652	\$ 1,998,239	\$ 1,934,587	\$ 365,069	\$ 0
					(B)	(C)		

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2006, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources - Per Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ <u>1,998,239</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u>1,998,239</u>

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report Dated July 7, 2006	\$ 734,387
--	------------

Add Items Not on Grant Section Auditor's Report:

Amounts Received as Pass Through from Intermediate School District	
21 <sup>st</sup> Century Community Learning Center	\$ 35,414
Special Education Flowthrough	172,400

Amounts Received Through Counties	
National Forest	96,869

Amounts Received Through Michigan State Police	
State Domestic Preparedness Equipment Support Program	5,336

Amounts Received Directly from U.S. Department of Education and Agriculture	
Impact Aid	471,909
Indian Education	105,933
Safe and Drug Free Schools and Communities	329,411

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Amounts Received as Payments in Kind		
Food Distribution Program		
Entitlement Commodities	26,457	
Bonus Commodities	<u>2,851</u>	1,246,580
Less Payments made in June per		
Grant Section Auditor's Report and		
Not Received until July by District		(33,341)
Less Non-Federal Payments Reported on the		
Grant Section Auditor's Report:		
School Breakfast – State Funds		<u>(13,039)</u>
Current Year Receipts (Cash Basis) per		
Schedule of Expenditures of Federal Awards		\$ <u><u>1,934,587</u></u>

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

August 3, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Rudyard Area Schools  
Rudyard, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rudyard Area Schools as of and for the year ended June 30, 2006, which collectively comprise the Rudyard Area Schools basic financial statements and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Rudyard Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Rudyard Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Rudyard Area Schools in a separate letter dated August 3, 2006.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

None

RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**A. Summary of Auditors' Results**

Type of auditors' report issued:	Unqualified		
Reportable condition(s) identified:	_____ Yes	_____ <u>X</u> No	
Reportable condition(s) identified as material weakness(es)?	_____ Yes	_____ <u>X</u> No	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

***Federal Awards***

Internal control over major programs:			
Reportable condition(s) identified:	_____ Yes	_____ <u>X</u> No	
Reportable condition(s) identified as material weakness(es)?	_____ Yes	_____ <u>X</u> No	
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	_____ Yes	_____ <u>X</u> No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.041	Impact Aid
84.184A	Safe and Drug Free Schools and Communities

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes	_____ No
--	--------------------	----------



RUDYARD AREA SCHOOLS  
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**B. Findings - Financial Statements Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER., C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

August 3, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education  
Rudyard Area Schools  
Rudyard, Michigan

Dear Members of the Board of Education:

We have completed our audit of the basic financial statements of the Rudyard Area Schools for the fiscal year ended June 30, 2006, and would like to comment on the following items relative to the management and accounting records/procedures of the School District:

Budgeting

Expenditures exceeded appropriations in the Food Service Fund and Public Library Fund. State law requires that the District amend its budget before expending any funds in excess of original appropriations. In the General Fund, since the actual loss was more than the budgeted loss, the Board President may receive a letter from the Michigan Department of Education warning of this budget violation. The Department of Education will also request information from the District related to the budgeting process.

Budget Format

Currently the Board is adopting a line item detailed budget. To streamline the process we believe a summary budget showing major revenue and expenditure categories should be the legally adopted budget. This would allow an audit schedule with far less detail to be presented and meet the Required Supplementary Information (RSI) financial statement presentation requirement. We would further recommend the Board's working budget continue to be utilized for internal purposes as the board sees useful.

Financial Information Database (FID)

The State of Michigan's Financial Information Database (FID) System has replaced the Form B report by requiring District's to submit their financial information electronically to the State using the State's new Chart of Accounts. The school is responsible for ensuring its' compliance with the State's new Chart of Accounts. The State has indicated it will accept FID transmittals using the State Chart through Change Notice Number 12 or 13 (School's choice).

### Internal Controls Over Cash

The District should continue to monitor its internal controls over cash received, especially related to cash initially remitted to the District at locations other than the central office. These locations would include athletic events, student activity account fundraising, the public library and food service. While these amounts may be immaterial to the financial statements taken as a whole, control over cash receipts is very important at any level, and unless strong controls are in place and functioning properly, there would be no way to measure cash that is never recorded on the District's records.

### Delinquent Personal Property Tax

The District's General Fund is owed over \$43,000 in delinquent personal property tax from the last three year's tax rolls alone. Because of the way the State's Foundation Allowance works, the District will never receive this revenue until the various Township Treasurers collect this tax and distribute it to the School, or it is removed from the tax roll and the County Treasurer reports to the State of Michigan that the District will not be receiving these funds locally. At which point, the State of Michigan will then make the District whole by adjusting the State portion of that year's Foundation Allowance by the amount of tax removed from the roll. We recommend that the District continue to monitor the amount of outstanding personal property taxes and communicate with the Township Treasurer as to collection efforts.

### Deficit Fund Balance

As noted in your prior year audit, the Athletic Activities Fund had a deficit fund balance. The current amount is \$70,784. While Transfers were made during the year, at June 30, 2006 a deficit remained. The State of Michigan requires the District to submit a Deficit Reduction Plan as soon as possible. The plan should outline how the District plans to correct the situation. In that the Athletic Activities Fund has no resources to pay back the General Fund, we recommend that the situation be corrected as soon as possible by the board authorizing a transfer of funds from the General Fund to this fund in the amount needed to cover the deficit. The District should then implement a policy of monitoring fund balance in all funds on a monthly basis to prevent this from occurring in the future.

### Due To/Due From Other Funds

During the past year, the District did a much better job of clearing out its Due To/Due From Other Fund accounts. We recommend that each month these types of transactions be cleared out as part of a month end closing procedure. By doing this each month, errors will be confined to one month and detected early; this will also facilitate the awareness of deficit fund balances through the use of this procedure in conjunction with monthly bank reconciliations which are currently being done on a regular basis.

### Headlee Millage Rollback

The District's operating millage is subject to the Headlee Rollback provisions which limits the levy from 18.0000 mills to 16.8009 mills. This results in a loss of revenue to the district for the past fiscal year of more than \$53,000. The District may want to consider having the voters restore the District's ability to levy the full 18 mills for school operations.

### Benefit of Three Year Average Pupil Counts

The District is subject to a special provision in the law allowing it to average the last three years pupil counts in order to calculate its foundation allowance. This averaging results in the District counting 41 more general education students as opposed to without the average. This computes to \$281,875 of the foundation allowance.

### Condition of Accounting Records

We believe that the District has made progress in improving the recordkeeping process from the prior year. We commend the business office for their hard work over the past year. Room for improvement still exists, but progress is continuing to be made.

### Capital Asset Accounting

The District needs to set up reporting procedures for Capital Asset additions so the assets can be added to the depreciation software. This accounting is used at year end to report asset costs, accumulated depreciation and depreciation expense. Special care needs to be taken to insure ending balances from the prior years are carried forward and that accumulated amounts are accurately maintained. This year the beginning asset totals and accumulated depreciation amounts did not agree with the 2005 ending totals. We are available to provide this service if needed.

### General Ledger Accounting

The Income Statement as compared to the Balance Sheet for the General Fund was found to be out of balance. The software did not indicate this situation; it was when we reviewed results that it was found. The amount is not significant, was tracked to the January 2006 timeframe, and will need to be corrected before the year is closed. We discussed this with the business manager and she is aware of the problem.

### Building and Site Fund #41 and #42

These funds have total cash of approximately \$12,000. We recommend the balances be spent on capital outlay and closed out. This will eliminate two funds and streamline the administrative and accounting process. We recommend to provide desired control over the Building Improvements function, a line item be set up in Operation and Maintenance within the General Fund and proper budgeting and monitoring procedures be initiated to review any building expenditures Brian suggests. The account history can be provided periodically to any board member or party needing to review the items purchased.

### Revolving Loan Account Clubs and Organizations

We found this account with a credit balance (overdrawn) of approximately \$23,000. We asked the business manager to research the history and she provided the background showing that Scholarships had been paid and charged to the account, but that the trust funds that authorized the scholarships had not paid back the revolving fund. Upon further review it was determined the Constantine Scholarships account owed the revolving loan fund. We recommend the request for withdrawal of funds be completed to payback the overdrawn revolving account.

Accrued Expenditures

The District borrowed \$1,300,000 to fund operations. This note is due August 19, 2006 and carries an interest rate of 2.92%. The interest is payable at maturity. We computed the interest expense accrual to June 30, 2006 of \$32,760. We provided a copy of our computation to Camie for future reference.

Also due to staff layoffs the District was subject to unemployment charges. This expense is also accrued at year end because the billing is not sent to the District by the state until after June 30, 2006 and only covers payments made as of December 31, 2005. This as well as the first six months of 2006 needs to be accumulated and recorded at June 30, each year. We also recommended the recording of this expense which amounted to \$18,543.

The recording of these two expenditure items are the main reason the audited year end results are different than expected.

Payroll Analysis

We in the past have requested a prepared payroll analysis of reporting to outside parties i.e., retirement reports, 941 forms, and payroll expense, compared to the expenditures recorded in the general ledger. We have provided an example to your staff in order to have these items reconciled. We recommend this to be done quarterly as it will be difficult to wait until year end to the entire year at once. By doing this, the District will make itself aware of payroll related problems as they arise, and the problems can be timely corrected.

Athletic Activities Internal Controls

During our test of gate receipts, it was note that the controls that are supposed to be in place, are not functioning for each event. We recommend that the gate receipt controls be reviewed with appropriate officials and that the controls be monitored to ensure they are functioning properly.

Coordination between Grant Coordinator and Business Manager

We recommend the District develop procedures to ensure better coordination between the grant coordinator and business manager related to grant expenditures and the budget. We have discussed this verbally in the past, and still believe improvement should occur.

We sincerely thank the Board for awarding this firm the audit assignment. We appreciate the confidence you have expressed in us. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*